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TO RUEHC/SECSTATE WASHDC IMMEDIATE 7665
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 6864
RUEHCV/AMEMBASSY CARACAS PRIORITY 2667
RUEHLP/AMEMBASSY LA PAZ SEP 0706
RUEHPE/AMEMBASSY LIMA PRIORITY 1893
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TREASURY FOR MMALLOY AND MEWENS

E.O. 12958: N/A
TAGS: ECON ETRD EC

SUBJECT: GOE TO LOWER TARIFFS ON INPUTS, RAW MATERIALS, CAPITAL GOODS

REFTEL: Quito 1794

¶1. (SBU) Summary: The GOE intends to reduce tariffs on inputs, raw materials, and capital goods to increase production and competitiveness and control rising prices. Tariffs on 1,957 products will fall from 5-20 percent to 0-5 percent. The private sector has praised the plan but fear it could be accompanied by increased tariffs on imported manufactured goods. End Summary.

¶2. (U) As part of a new economic policy to increase production and competitiveness in the industrial and agricultural/fishery sectors (and counter rising prices), the GOE presented a proposal August 21 to cut tariffs on inputs, raw materials, and capital goods to COMEXI, a joint public sector/private sector trade committee. COMEXI approved the proposal after the GOE agreed to reduce a few more tariff lines at the request of the private sector. Tariffs on 1,957 products will be reduced from 5-20 percent to 0-5 percent. To implement the proposal, President Correa must issue an executive decree, which is expected within several weeks.

¶3. (U) The tariff reductions cover a wide range of products and are expected to benefit numerous sectors, including textiles, agriculture and fisheries, automotive, food and beverage, and white goods. The cuts that have generated the most attention are those for wheat and wheat flour (tariffs on these products will drop from 20 percent to zero for six months as part of an effort to maintain bread prices in the face of rapidly rising international wheat prices, reftel).

¶4. (SBU) Comment: The GOE's plan to reduce tariffs and further open Ecuador's economy is a positive, market-oriented development. However, according to the Executive Director of the Guayaquil Chamber of Commerce, Teodoro Maldonado, the GOE told COMEXI that the cuts would be accompanied by increased tariffs on some manufactured goods to protect Ecuadorian industry. To date, the GOE has not indicated what tariff lines it might increase. This type of protectionist measure, if implemented, would reflect a strain of thinking in the GOE that government intervention will help promote local production. Maldonado reported that his chamber would resist any tariff increase, but did not know how other parts of the private sector might react. End Comment.

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